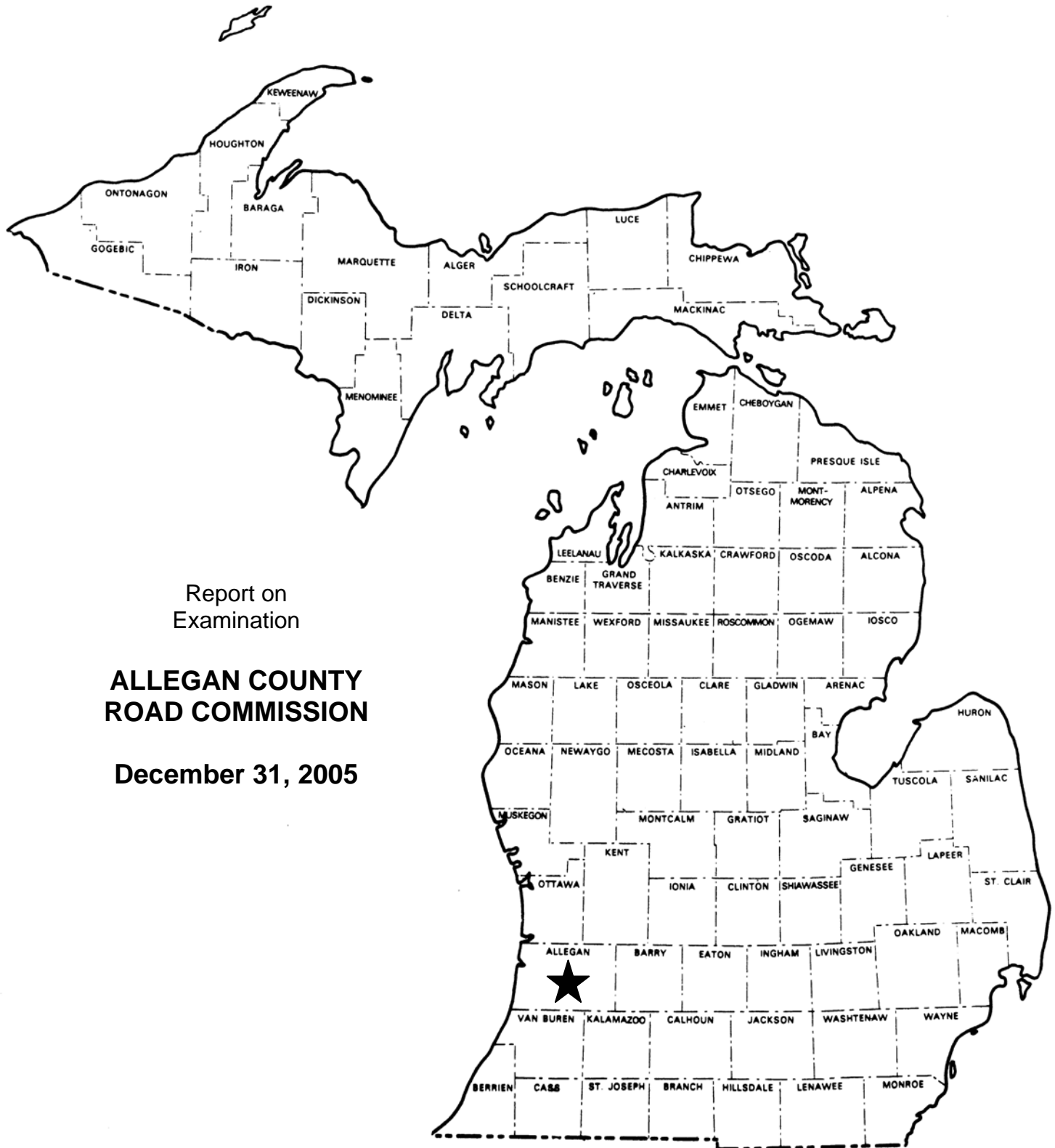


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**ALLEGAN COUNTY
ROAD COMMISSION**

December 31, 2005

ALLEGAN COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Bruce D. Culver
Chairman

James S. Rolfe
Vice-Chairman

John Cravens
Member

William L. Nelson
Managing Director

Claire R. Patrick
Business Manager

COUNTY POPULATION--2000
105,665

STATE EQUALIZED VALUATION--2005
\$4,885,259,382



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

April 6, 2006

Allegan County Road Commission
Board of County Road Commissioners
1308 Lincoln Road
Allegan, Michigan 49010

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Allegan County Road Commission, a component unit of Allegan County, Michigan, as of and for the year ended December 31, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Allegan County Road Commission as of December 31, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 8 and budget comparison information included in Exhibits G and H are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board and accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated April 6, 2006 on our consideration of the Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grant agreements' noncompliance with which could have a direct and material effect on the financial statement amounts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Allegan County Road Commission, taken as a whole. The accompanying supplemental and related information in Exhibits I through K are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ALLEGAN COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Allegan County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the Operating Fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

ALLEGAN COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The Road Commission currently has only one fund, the General Operations Fund. All of the Road Commission's activities are accounted for in this fund. The General Operations Fund is a governmental fund type. Our analysis of the Road Commission's major fund begins below. The fund financial statements begin on page 11 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the Governmental Fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 5.60%, or \$6,339,696, from \$113,235,920 to \$119,575,615 for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets-net of related debt) are considered restricted.

ALLEGAN COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The restricted net assets increased by \$923,540 during 2005. The primary reason for the increase was a decrease in liabilities due to a decrease in program expenses.

The investment in capital assets-net of related debt increased by \$5,416,155. The increase in net assets is primarily the result of the reporting infrastructure of \$9,237,668 for the year 2005. The depreciation for the current year's infrastructure will be depreciated in the subsequent year.

Net assets as of year ended December 31, 2005 are as follows:

	<u>2004</u>	<u>2005</u>	<u>Variance</u>	<u>%</u>
Current and Other Assets	\$ 6,980,737	\$ 7,282,166	\$ 301,429	4.32%
Capital Assets	<u>110,374,247</u>	<u>115,766,810</u>	<u>5,392,563</u>	<u>4.89%</u>
Total Assets	<u>117,354,984</u>	<u>123,048,976</u>	<u>5,693,992</u>	<u>4.85%</u>
Long-Term Debt Outstanding	639,980	610,742	(29,238)	-4.57%
Other Liabilities	<u>3,479,084</u>	<u>2,862,619</u>	<u>(616,465)</u>	<u>-17.72%</u>
Total Liabilities	<u>4,119,064</u>	<u>3,473,361</u>	<u>(645,703)</u>	<u>-15.68%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	110,153,026	115,569,181	5,416,155	4.92%
Restricted	<u>3,082,894</u>	<u>4,006,434</u>	<u>923,540</u>	<u>29.96%</u>
Total Net Assets	<u>\$ 113,235,920</u>	<u>\$ 119,575,615</u>	<u>\$ 6,339,695</u>	<u>5.60%</u>

ALLEGAN COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2005 is as follows:

	Governmental Activities		Variance	
	2004	2005	Increase (Decrease)	%
Program Revenue				
License and Permits	\$ 29,593	\$ 32,675	\$ 3,082	10.41%
Federal Grants	2,043,034	1,788,151	(254,883)	-12.48%
State Grants	9,011,684	8,780,154	(231,530)	-2.57%
Contributions From Local Units	5,310,123	5,478,159	168,036	3.16%
Reimbursements	2,189	6,889	4,700	214.71%
Interest and Rents	47,402	188,954	141,552	298.62%
Charges for Services	10,845	16,378	5,533	51.02%
General Revenue				
Taxes	2,231,533	2,329,044	97,511	4.37%
Gain on Equipment Disposal	56,984	75,500	18,516	32.49%
Gain on Sale of Surplus Property	14,062		(14,062)	-100.00%
Total Revenue	18,757,449	18,695,904	(61,545)	-0.33%
Expenses				
Public Works	8,332,224	12,354,331	4,022,107	48.27%
Interest Expense	12,980	10,112	(2,868)	-22.10%
Total Expenses	8,345,204	12,364,443	4,019,239	48.16%
Excess Before Transfers	10,412,245	6,331,461	(4,080,784)	-39.19%
Transfers In--Primary Government	136,133	8,235	(127,898)	-93.95%
Increase (Decrease) in Net Assets	10,548,378	6,339,696	(4,208,682)	-39.90%
Beginning Net Assets	34,737,722	113,235,919	78,498,197	225.97%
Ending Net Assets	<u>\$ 45,286,100</u>	<u>\$ 119,575,615</u>	<u>\$ 74,289,515</u>	<u>164.04%</u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

ALLEGAN COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2005, the fund balance of the General Operations Fund increased \$917,894 as compared to a decrease of \$250,221 in the fund balance for the year ended December 31, 2004. Total operating revenues were \$18,695,904, a decrease of \$69,056 as compared to last year. This change in revenues resulted primarily from a decrease of Federal and State grants of \$486,413. Total expenditures were \$17,786,245, a decrease of \$1,365,069 as compared to last year. This change in expenditures is due primarily to a decrease in preservation/structural improvements projects of \$2,659,690.

A summary of changes in the Operating Fund is as follows:

	12/31/2004 Operating Fund	12/31/2005 Operating Fund	Favorable (Unfavorable) Variance	Variance %
Revenues				
Taxes	\$ 2,231,533	\$ 2,329,044	\$ 97,511	4.37%
License and Permits	29,593	32,675	3,082	10.41%
Federal Grants	2,043,034	1,788,151	(254,883)	-12.48%
State Grants	9,011,684	8,780,154	(231,530)	-2.57%
Contributions From Local Units	5,310,123	5,478,159	168,036	3.16%
Charges for Services	10,845	16,378	5,533	51.02%
Interest and Rents	47,402	188,954	141,552	298.62%
Other Revenue	80,746	82,389	1,643	2.03%
Total Revenues	<u>18,764,960</u>	<u>18,695,904</u>	<u>(69,056)</u>	<u>-0.37%</u>
Expenditures				
Public Works	18,276,394	16,889,233	1,387,161	7.59%
Capital Outlay	791,016	863,308	(72,292)	-9.14%
Debt Service	83,904	33,704	50,200	59.83%
Total Expenditures	<u>19,151,314</u>	<u>17,786,245</u>	<u>1,365,069</u>	<u>7.13%</u>
Excess of Expenditures Over Revenues	<u>(386,354)</u>	<u>909,659</u>	<u>1,296,013</u>	<u>335.45%</u>
Other Financing Sources				
Transfers In--Primary Government	<u>136,133</u>	<u>8,235</u>	<u>(127,898)</u>	<u>-93.95%</u>
Total Other Financing Sources	<u>136,133</u>	<u>8,235</u>	<u>(127,898)</u>	<u>-93.95%</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>(250,221)</u>	<u>917,894</u>	<u>1,168,115</u>	<u>466.83%</u>
Fund Balance--Beginning	<u>3,751,874</u>	<u>3,501,653</u>	<u>(250,221)</u>	<u>-6.67%</u>
Fund Balance--Ending	<u>\$ 3,501,653</u>	<u>\$ 4,419,547</u>	<u>\$ 917,894</u>	<u>26.21%</u>

ALLEGAN COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2005 was \$591,400 lower than the original budget primarily due to the Road Commission not receiving certain Federal and State aid projects during the year as originally planned. The actual revenue recognized during 2005 was \$37,439 more than the final amended budget.

The final amended expenditure budget for 2005 was \$1,163,650 lower than the original budget, primarily due to the Road Commission not receiving certain Federal and State aid projects as originally planned. There was also an increase in winter maintenance of \$272,966 due to seasonal needs. The actual expenditures recognized during 2005 were less than the final amended budget by \$11,105. There were no unfavorable variances in any expenditure line-items.

ALLEGAN COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2005, the Road Commission had invested \$115,766,811 in capital assets. This amount represents a net increase (including additions and deductions) of \$5,392,565 or 4.89% as follows:

	2004	2005	Total Percentage Change 2004-2005
Capital Assets Not being Depreciated			
Land and Improvements	\$ 139,787	\$ 139,787	0.00%
Land/Right-of-Way	1,408,938	1,441,916	2.34%
Infrastructure Land Improvements	53,354,420	56,841,426	6.54%
Subtotal	54,903,145	58,423,129	6.41%
Capital Assets Being Depreciated			
Buildings	1,383,385	1,383,385	0.00%
Equipment	9,797,517	10,232,811	4.44%
Yard and Storage	1,065,073	1,065,073	0.00%
Infrastructure	80,609,749	84,320,432	4.60%
Subtotal	92,855,724	97,001,701	4.46%
Total Capital Assets	147,758,869	155,424,830	5.19%
Total Accumulated Depreciation	(37,384,623)	(39,658,020)	6.08%
Total Net Capital Assets	<u>\$ 110,374,246</u>	<u>\$ 115,766,810</u>	<u>4.89%</u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$9,237,668. The infrastructure recorded, during 2005, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions.

This year's major capital asset additions included the following:

Reconstruction of Bridges (by Location)	\$ 676,162
Various Resurfacing Projects and Related Land/Right-of-Way	8,561,506
Trucks/Equipment	857,896
Administrative and Engineering	5,411
Total Additions	<u>\$ 10,100,975</u>

There were no installment purchase agreements entered into during 2005. All the equipment was acquired with Road Commission funds.

ALLEGAN COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

During 2005, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$428,013, related depreciation of \$428,013, and net book value of \$0.

Debt

At the year end, the Road Commission had \$197,629 in installment purchase agreements versus \$221,221 last year, a decrease of \$23,592 or 10.66% as shown below:

	<u>2004</u>	<u>2005</u>	<u>Variance</u>	<u>% of Variance</u>
Installment Purchase Agreements	<u>\$221,221</u>	<u>\$197,629</u>	<u>\$23,592</u>	<u>10.66%</u>
Total	<u><u>\$221,221</u></u>	<u><u>\$197,629</u></u>	<u><u>\$23,592</u></u>	<u><u>10.66%</u></u>

During 2005, there was no new debt. In 2006, the Road Commission does not anticipate borrowing or financing any debt related to the acquisition of capital assets.

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note G to the financial statements.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The Road Commission derived approximately 45% of its revenues from the fuel tax collected in 2005. We are projecting a small decrease in MTF funds due to the poor economy and high gas prices. The Road Commission received approximately 39% of its revenues from township contributions during 2005, this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. We are anticipating that the townships will spend \$4,280,000 in 2006. During 2006, we expect to receive \$3,804,000 in Federal and State aid for road projects.

The above items were considered when adopting the budget for 2006. Amounts available for appropriation in the 2006 budget are \$18,884,100, an increase of 6% over the 2005 amended budget of \$17,797,350.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Allegan County Road Commission's administrative offices at 1308 Lincoln Road, Allegan, Michigan 49010.

**ALLEGAN COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
December 31, 2005**

EXHIBIT A

ASSETS

Cash	\$ 1,494,214
Investments	492,605
Accounts Receivable	
Taxes	2,421,163
Sundry Accounts	4,587
Michigan Transportation Fund	1,310,339
State--Other	52
Due on County Road Agreements	682,189
Due From Primary Government	178,582
Inventories	
Road Materials	223,210
Equipment Parts and Materials	353,562
Prepaid Expenses	121,663
Capital Assets (Net of Accumulated Depreciation) (Note F)	<u>115,766,810</u>
Total Assets	<u>123,048,976</u>

LIABILITIES

Current Liabilities	
Accounts Payable	229,159
Due to State of Michigan	52,128
Accrued Liabilities	140,989
Performance Bonds Payable	19,180
Advances	
Property Taxes	2,421,163
Noncurrent Liabilities	
Installment Purchase Agreements Payable--Due Within One Year	197,629
Vested Employee Benefits Payable	<u>413,113</u>
Total Liabilities	<u>3,473,361</u>

NET ASSETS

Investment in Capital Fixed Assets	
Net of Related Debt	115,569,181
Restricted for County Roads	<u>4,006,434</u>
Total Net Assets	<u>\$ 119,575,615</u>

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 1,899,653
Local Road Maintenance	5,353,072
Net Equipment Expense	54,834
Net Administrative Expense	537,386
Non-Road Project	799,385
Infrastructure Depreciation	3,715,647
Compensated Absences	(5,646)
Interest Expense	10,112
	<hr/>
Total Program Expenses	12,364,443
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	32,675
Charges for Services	16,378
Reimbursements	4,653
Operating Grants and Contributions	
Michigan Transportation Funds	8,408,886
Investment Earnings	188,954
Private Contributions	2,236
Capital Grants and Contributions	
Federal Grants	1,788,151
State Grants	371,268
Contributions From Local Units	5,478,159
	<hr/>
Total Program Revenue	16,291,360
	<hr/>
Net Program Revenue	3,926,917
	<hr/>
General Revenue	
Taxes	2,329,044
Gain on Equipment Disposal	75,500
Transfers In--Primary Government	8,235
	<hr/>
Total General Revenues and Transfers In	2,412,779
	<hr/>
Change in Net Assets	6,339,696
	<hr/>
Net Assets	
Beginning of Year	45,286,100
Restatement to Net Assets (Note F)	67,949,819
	<hr/>
Restated Net Assets	
Beginning of Year	113,235,919
	<hr/>
End of Year	\$ 119,575,615
	<hr/>

The Notes to Financial Statements are an integral part of this statement.

**ALLEGAN COUNTY ROAD COMMISSION
BALANCE SHEET
December 31, 2005**

EXHIBIT C

	GOVERNMENTAL FUND TYPE
	<u>General Operating Fund</u>
<u>ASSETS</u>	
Cash	\$ 1,494,214
Investments	492,605
Taxes Receivable	2,421,163
Accounts Receivable	
Sundry Accounts	4,587
Michigan Transportation Fund	1,310,339
State Highway--Other	52
Due on County Road Agreements	682,189
Due From Primary Government	178,582
Inventories	
Road Materials	223,210
Equipment Parts and Materials	353,562
Prepaid Expense	<u>121,663</u>
Total Assets	<u><u>\$ 7,282,166</u></u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 229,159
Accrued Liabilities	140,989
Due to State of Michigan	52,128
Performance Bonds Payable	19,180
Deferred Revenue--Property Taxes	<u>2,421,163</u>
Total Liabilities	<u>2,862,619</u>
Fund Equities	
Fund Balance	
Reserved for Inventory	576,772
Unreserved and Undesignated	<u>3,842,775</u>
Total Fund Equities	<u>4,419,547</u>
Total Liabilities and Fund Equities	<u><u>\$ 7,282,166</u></u>

The Notes to Financial Statements are an integral part of this statement.

**ALLEGAN COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCE TO THE STATEMENT OF NET ASSETS
For the Year Ended December 31, 2005**

EXHIBIT D

Total Governmental Fund Balance	\$ 4,419,547
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	115,766,810
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Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(610,742)</u>
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Net Assets of Governmental Activities	<u><u>\$119,575,615</u></u>
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The Notes to Financial Statements are an integral part of this statement.

**ALLEGAN COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2005**

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
Taxes	\$ 2,329,044
License and Permits	32,675
Federal Grants	1,788,151
State Grants	8,780,154
Contributions From Local Units	5,478,159
Charges for Services	16,378
Interest and Rents	188,954
Other Revenue	<u>82,389</u>
Total Revenues	<u>18,695,904</u>
Expenditures	
Public Works	16,889,233
Capital Outlay	863,308
Debt Service	<u>33,704</u>
Total Expenditures	<u>17,786,245</u>
Excess of Revenues Over (Under) Expenditures	<u>909,659</u>
Other Financing Sources	
Transfers In--Primary Government	<u>8,235</u>
Total Other Financing Sources	<u>8,235</u>
Excess of Revenues and Other Financing Sources Over Expenditures	917,894
Fund Balance--January 1, 2005	<u>3,501,653</u>
Fund Balance--December 31, 2005	<u><u>\$ 4,419,547</u></u>

The Notes to Financial Statements are an integral part of this statement.

**ALLEGAN COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES
For the Year Ended December 31, 2005**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ 917,894

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

9,108,211

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets.

23,592

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and infrastructure depreciation)

(3,710,001)

Change in Net Assets of Governmental Activities

\$ 6,339,696

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Allegan County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Allegan County Road Commission.

NOTE A--REPORTING ENTITY

The Allegan County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member board of county road commissioners appointed by the county board of commissioners. The Road Commission may not issue debt without the county's approval and property tax levies for road purposes are subject to county board of commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Allegan County Road Commission, a discretely presented component unit of Allegan County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Allegan County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Measurable refers to the ability to quantify in monetary terms of the amount of the revenue. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences, claims, and judgments are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash and Investments

Cash is considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes Receivable

The property tax is levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st. The 2005 taxable valuation of Allegan County amounted to \$3,599,680,116, less \$1,079,713,923 for cities and villages on which ad valorem taxes of .9752 mills were levied for the Road Commission for road construction purposes for a total of \$2,421,163.

The county's 2005 ad valorem tax is levied and collectible on December 1, 2005, and is reported as taxes receivable and is offset by deferred revenue at December 31, 2005.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Allegan County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Road Commission's tax is levied and collectible on December 1, 2005 and is recognized as revenue in the year ended December 31, 2006, when the proceeds of the levy are budgeted and available for the financing operations.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, Michigan Compiled Laws (MCL) 141.421 which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board does not conduct a public budget hearing; the budget is submitted to the county and included in its public hearing. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS

MCL 129.91 authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated seven financial institutions for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings	
Accounts, Certificates of Deposit)	\$1,494,114
Investments in Government Operating Money	
Markets and Government Securities	492,605
Petty Cash and Cash on Hand	<u>100</u>
Total	<u><u>\$1,986,819</u></u>

The bank balance of the primary government's deposits is \$1,598,662, of which \$400,000 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to government operating money markets and government securities.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

Information about the sensitivity of the fair values of the Road Commission's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Road Commission's investments by maturity:

<u>Investment Type</u>		<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Government Securities	\$244,870	\$ 244,870		
U.S. Government Obligations	<u>247,735</u>	<u>247,735</u>		
Total	<u>\$492,605</u>	<u>\$ 492,605</u>	<u>\$ -</u>	<u>\$ -</u>

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) Michigan law, the Road Commission's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Rated Debt Investments</u>			
	<u>Fair Value</u>	<u>Rating S & P</u>	<u>Fair Value</u>	<u>Rating Moody's</u>
Government Securities	\$244,870	AAA	\$244,870	Aaa
U.S Government Obligations	<u>247,735</u>	AAA	<u>247,735</u>	Aaa
Total	<u>\$492,605</u>		<u>\$492,605</u>	

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE E--INTERFUND RECEIVABLE

At December 31, 2005, the county (primary government) owed the Road Commission \$178,582 for the Richmond Bridge Project.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Notes	Account Balances 12/31/04	Additions	Deductions	Account Balances 12/31/05
Capital Assets Not Being Depreciated					
Land and Improvements		\$ 139,787			\$ 139,787
Land/Right-of-Way	1	1,408,938	\$ 32,978		1,441,916
Infrastructure Land Improvements	1	53,354,420	3,487,006		56,841,426
Subtotal		54,903,145	3,519,984	\$ -	58,423,129
Capital Assets Being Depreciated					
Buildings		1,383,385			1,383,385
Road Equipment		9,536,356	857,897	428,013	9,966,240
Shop Equipment		32,513			32,513
Office Equipment		180,156	4,611		184,767
Engineer's Equipment		48,492	799		49,291
Yard and Storage		1,065,073			1,065,073
Infrastructure--Bridges	2	8,352,969	676,162		9,029,131
Infrastructure--Roads	3	72,256,780	5,041,522	2,007,001	75,291,301
Total		92,855,724	6,580,991	2,435,014	97,001,701
Less Accumulated Depreciation					
Buildings		612,348	27,544		639,892
Road Equipment		7,454,446	927,097	428,013	7,953,530
Shop Equipment		21,601	4,155		25,756
Office Equipment		161,488	8,165		169,653
Engineer's Equipment		43,429	3,028		46,457
Yard and Storage		139,132	22,776		161,908
Infrastructure--Bridges	2	1,836,065	203,157		2,039,222
Infrastructure--Roads	3	27,116,114	3,512,489	2,007,001	28,621,602
Total		37,384,623	4,708,411	2,435,014	39,658,020
Net Capital Assets Being Depreciated		55,471,101	6,580,991	4,708,411	57,343,681
Total Net Capital Assets		<u>\$ 110,374,246</u>	<u>\$ 10,100,975</u>	<u>\$ 4,708,411</u>	<u>\$ 115,766,810</u>

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Beginning Net Capital Asset Restatement

Notes 1 through 3: The beginning balances include the increased balances for the infrastructure line-items due to the Road Commission recording the 20 years of infrastructure as required by Governmental Accounting Standards Statement No. 34 (GASB 34). Listed below is a summary of the land, road, and bridge infrastructure.

Beginning Net Capital Assets		<u>\$ 42,424,427</u>
Notes		
1) Retroactive Recording of Land		
Addition to Land/Right of Way	\$ 1,194,200	
Addition to Infrastructure Land Improvements	<u>38,597,459</u>	39,791,659
2) Retroactive Recording of Bridges		
Addition to Bridge Capital Assets	5,717,415	
Less: Accumulated Depreciation	<u>(1,794,253)</u>	3,923,162
3) Retroactive Recording of Roads		
Addition to Bridge Capital Assets	49,606,328	
Less: Accumulated Depreciation	<u>(25,371,330)</u>	24,234,998
Total Prior Period Adjustments		<u>67,949,819</u>
Restated Net Capital Assets at December 31, 2004		<u><u>\$ 110,374,246</u></u>

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 927,097
Indirect Equipment	54,475
Net Administrative Expense	
Office Equipment	8,165
Engineering	3,028
Infrastructure Depreciation Expense	<u>3,715,646</u>
Total Depreciation Expense	<u><u>\$4,708,411</u></u>

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balance 01/01/05</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/05</u>	<u>Due Within One Year</u>
Installment Purchase Agreements Caterpillar Financial Services Two Motor Graders, December 2001	\$221,221	\$ (23,592)	\$ 197,629	\$197,629
Vested Employee Benefits	<u>418,759</u>	<u>(5,645)</u>	<u>413,114</u>	<u> </u>
Total	<u>\$639,980</u>	<u>\$ (29,237)</u>	<u>\$ 610,743</u>	<u>\$197,629</u>

Annual debt service requirements to maturity for installment purchase agreements payable as of December 31, 2005, may be summarized as follows:

Installment Purchase Agreement with Caterpillar Financial Services Corporation for two motor graders.

Date of Installment Agreement: December 2001

Amount of Installment Purchase Agreement: \$285,600

60 Monthly Payments of: \$2,808.60

Nominal Annual Interest Rate: 4.80%

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
12/31/06	<u>\$197,629</u>	<u>\$8,952</u>	<u>\$206,581</u>
	<u>\$197,629</u>	<u>\$8,952</u>	<u>\$206,581</u>

NOTE H--VESTED EMPLOYEE BENEFITS

Employees with 6 months of seniority are granted leave time of 16 hours per month. Office employees get an additional 16 hours per year at January 1. This leave time may be used to cover absences because of illness or vacation. Such leave may be accumulated to a maximum of 768 hours.

On the first payday of June each year, employees are paid an amount equal to all leave accrued in excess of 576 hours as shown in the records on December 31 of the preceding year. Accumulated leave time is payable in full upon resignation or retirement. Office employees leave time is payable in full upon resignation, termination or retirement.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE I--DEFERRED COMPENSATION PLAN

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Allegan County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

NOTE J--POST-EMPLOYMENT HEALTH CARE BENEFITS

The Road Commission provides post-employment health care benefits, in accordance with the respective bargaining agreements and personnel policy as follows:

Employees that belong to the office bargaining unit and nonrepresented employees contribute the cost of their health care insurance coverage in accordance with the terms and conditions as applicable to them as of their last date of active service with the Road Commission (either \$6 or 3.5% or 4% of the premium). The full premium, less employee portion of medical benefits for the retired employees through the ages of 60 through 64 years old (or 55 years old if they begin to receive Michigan Municipal Employees' Retirement System), is paid by the Road Commission. When the retired employee attains the age of 65 years, the employer's contribution shall end under the contracts. Beginning January 1, 1999, an employee who retires and begins receiving benefits from MERS may receive a maximum of five years of paid health insurance, irrespective of age.

Employees that belong to the Local Union No. 586, Unit 86, Service Employees' International Union contribute the cost of their health care insurance coverage in accordance with the terms and conditions as applicable to them as of their last date of active service with the Road Commission. The Road Commission shall provide health care insurance coverage for a period of five years for all members who retire with twenty or more years of service and receive benefits from the Michigan Municipal Retirement System. The board will provide benefits only to the employee and the board's obligation does not include the coverage of a retired employee's spouse or dependents. The board shall provide no benefits to any employee after reaching the age of 65 years.

Currently, 6 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During the year, expenditures of \$19,638 were recognized for post-employment health care by the Road Commission.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE K--EMPLOYEE PENSION PLAN

Plan Description

The Allegan County Road Commission is in an agent multi employer-defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement deferred retirement, service retirement allowance, disability retirement allowance, non-duty connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which requires employees to contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. The employees contributed \$130,788 during 2004 in accordance with the competitive bargaining and personnel policy. The Road Commission is required to contribute at an actuarially determined rate which was 2.44% of the annual payroll for the union and supervisors; and 4.82% for administration based on the 2002 actuarial valuation beginning on January 1, 2004.

Annual Pension Cost

During the year ended December 31, 2004, the Road Commission was required to make \$130,160 in contributions as determined by an actuarial valuation of the plan as of December 31, 2002 and the employees contributed \$130,788 in accordance with the plan. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE K--EMPLOYEE PENSION PLAN (Continued)

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ 127,372	100%	\$0
2003	160,663	100%	0
2004	260,948	100%	0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percent of Covered Payroll</u>
12/31/02	\$ 12,355,498	\$ 12,370,024	\$ 14,526	100%	\$ 2,685,007	1%
12/31/03	12,761,760	12,914,970	153,210	99%	2,762,714	6%
12/31/04	13,195,275	14,453,113	1,257,838	91%	2,754,152	46%

NOTE L--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for inland marine, physical damage (building and contents) and medical benefit claims. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions and physical damage (equipment). The Road Commission participates in the County Road Commission Self-Insurance Fund (CRCSIF) for workers' compensation insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 fiscal years.

The county road commissions in the State of Michigan established a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provision of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Allegan County Road Commission became a member in the pool in April 1984 and became a member of CRCSIF in 1981.

The Michigan County Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan, member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE M--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

NOTE N--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2005, the Federal Aid received and expended by the Road Commission was \$1,788,151 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to Single Audit requirements by the road commissions, as they are included in MDOT's Single Audit.

During the calendar year ended December 31, 2005, the Road Commission did not receive any Federal negotiated projects. Negotiated projects are projects performed by the Road Commission that are subject to Single Audit requirements if the amount expended is \$500,000 or more. A Single Audit was not required for the calendar year ended December 31, 2005.

NOTE O--COMMITMENTS/SUBSEQUENT EVENT

On January 4, 2006, the Allegan County Board of Road Commissioners approved a five year lease agreement with Michigan Cat for two 143H graders for a total net cost of \$317,127, which were delivered during March and April 2006. Both lease agreements call for monthly payments of \$1,349.92 per month for 60 months. On February 1, 2006, the Allegan County Board of Road Commissioners approved the cash purchase of an additional grader for a net cost of \$101,531. The grader is scheduled to be delivered in June 2006.

**ALLEGAN COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2005**

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Property Taxes	\$ 2,210,100	\$ 2,330,100	\$ 2,329,044	\$ (1,056)
License and Permits				
Permits	25,000	33,000	32,675	(325)
Federal Grants				
Surface Transportation Program	1,807,000	957,000	957,188	188
Hazard Elimination Safety	200,000			
Federal Critical Bridge	610,000	480,000	479,353	(647)
Congestion C Funds	43,000	43,000	42,082	(918)
Economic D Funds	730,000	310,000	309,528	(472)
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	4,975,000	4,799,000	4,798,831	(169)
Local Road	3,274,000	3,132,000	3,131,443	(557)
Primary Urban Road	147,000	250,000	249,393	(607)
Local Urban Road	57,000	96,000	95,646	(354)
Snow Removal	117,000	124,000	123,573	(427)
Critical Bridge	120,000	90,000	89,879	(121)
Economic Development Funds				
"D" Funds	470,000	282,000	281,389	(611)
Contributions--Local Units				
Townships	4,150,000	5,499,000	5,478,159	(20,841)
Charges for Services				
Salvage Sales	5,000	8,000	7,981	(19)
Service Charge	15,000	8,500	8,397	(103)
Interest and Rents				
Interest Earned	75,000	124,000	188,954	64,954
Other Revenue				
Private Contributions			2,236	2,236
Reimbursements	10,000	5,000	4,653	(347)
Gain on Equipment Disposal	158,000	75,500	75,500	-
Total Operating Revenue	19,208,100	18,656,100	18,695,904	39,804
Other Financing Sources				
County Appropriation	-	10,600	8,235	(2,365)
Total Other Financing Sources	-	10,600	8,235	(2,365)
Total Revenue and Other Financing Sources	19,208,100	18,666,700	<u>\$18,704,139</u>	<u>\$ 37,439</u>
Fund Balance--January 1, 2005	3,501,653	3,501,653		
Total Budget	<u>\$ 22,709,753</u>	<u>\$ 22,168,353</u>		

**ALLEGAN COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2005**

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 6,015,000	\$ 4,242,000	\$ 4,241,420	\$ 580
Routine and Preventive Maintenance	2,230,000	1,898,000	1,896,630	1,370
Local Road				
Preservation/Structural Improvements	4,350,000	4,321,000	4,320,086	914
Routine and Preventive Maintenance	5,070,000	5,337,000	5,335,302	1,698
Primary Road Structure				
Preservation/Structural Improvements	10,000	3,000	2,856	144
Routine and Preventive Maintenance	10,000	3,500	3,023	477
Local Road Structure				
Preservation/Structural Improvements	825,000	674,000	673,306	694
Routine and Preventive Maintenance	5,000	18,000	17,770	230
Equipment Expense--Net	(70,000)	56,000		
Direct			\$ 1,414,811	
Indirect			992,277	
Operating			459,036	
Less: Equipment Rentals			<u>(2,811,290)</u>	1,166
Administrative Expense--Net	585,000	538,850		
Administrative Expense			356,019	
Engineering Expense			181,515	
Less: Purchase Discounts			<u>(148)</u>	1,464
Non Road Project		800,000	799,385	615
Capital Outlay--Net	1,000	(129,000)		
Capital Outlay			863,308	
Less: Depreciation Credits			(992,765)	
Equipment Retirements			<u>-</u>	457
Debt Service				
Principal	50,000	24,000	23,592	408
Interest	12,000	11,000	10,112	888
Total Expenditures	19,093,000	17,797,350	<u>\$ 17,786,245</u>	<u>\$ 11,105</u>
Fund Balance--December 31, 2005	<u>3,616,753</u>	<u>4,371,003</u>		
Total Budget	<u>\$ 22,709,753</u>	<u>\$ 22,168,353</u>		

ALLEGAN COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended December 31, 2005

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 9,397,626	\$ 8,409,192	\$ 889,086	\$ 18,695,904
Total Expenditures	6,275,621	10,721,524	789,100	17,786,245
Excess of Revenues Over (Under) Expenditures	3,122,005	(2,312,332)	99,986	909,659
Other Financing Sources (Uses)				
County Appropriation		8,235		8,235
Optional Transfers	(1,530,562)	1,530,562		-
Interfund Adjustment		754,398	(754,398)	-
Total Other Financing Sources (Uses)	(1,530,562)	2,293,195	(754,398)	8,235
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	1,591,443	(19,137)	(654,412)	917,894
Fund Balance--January 1, 2005	2,747,414	19,137	735,102	3,501,653
Fund Balance--December 31, 2005	\$ 4,338,857	\$ -	\$ 80,690	\$ 4,419,547

ALLEGAN COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
For the Year Ended December 31, 2005

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes				
Property Taxes	\$2,328,955		\$ 89	\$ 2,329,044
License and Permits				
Permits			32,675	32,675
Federal Grants				
Surface Transportation Program	957,013	\$ 175		957,188
Critical Bridge	894	478,459		479,353
Congestion C Funds	42,082			42,082
Economic D Funds	309,528			309,528
State Grants				
Michigan Transportation Fund				
Engineering	6,051	3,949		10,000
Allocation	4,798,831	3,131,443		7,930,274
Urban Roads	249,393	95,646		345,039
Snow Removal	47,597	75,976		123,573
Critical Bridge	168	89,711		89,879
Economic Development Funds				
"D" Funds	281,389			281,389
Contributions--Local Units				
Townships	150,994	4,527,780	799,385	5,478,159
Charges for Services				
Salvage Sales			7,981	7,981
Service Charge			8,397	8,397
Interest and Rents				
Interest Earned	148,254	1,032	39,668	188,954
Other Revenue				
Private Contributions		2,236		2,236
Reimbursements	1,868	2,785		4,653
Gain on Equipment Disposal	74,609		891	75,500
Total Operating Revenue	9,397,626	8,409,192	889,086	18,695,904
Other Financing Sources				
Transfers In--Primary Government		8,235		8,235
Total Other Financing Sources	-	8,235	-	8,235
Total Revenue and Other Financing Sources	\$9,397,626	\$ 8,417,427	\$ 889,086	\$ 18,704,139

ALLEGAN COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended December 31, 2005

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$4,241,420			\$ 4,241,420
Routine and Preventive Maintenance	1,896,630			1,896,630
Local Road				
Preservation/Structural Improvements		\$ 4,320,086		4,320,086
Routine and Preventive Maintenance		5,335,302		5,335,302
Primary Road Structures				
Preservation/Structural Improvements	2,856			2,856
Routine and Preventive Maintenance	3,023			3,023
Local Road Structures				
Preservation/Structural Improvements		673,306		673,306
Routine and Preventive Maintenance		17,770		17,770
Equipment Expense--Net (Per Exhibit H)	15,507	37,891	\$ 1,436	54,834
Administrative Expense--Net (Per Exhibit H)	200,217	337,169		537,386
Non Road Project			799,385	799,385
Capital Outlay--Net (Per Exhibit H)	(117,736)		(11,721)	(129,457)
Debt Service				
Principal	23,592			23,592
Interest	10,112			10,112
Total Expenditures	\$6,275,621	\$ 10,721,524	\$789,100	\$17,786,245



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

April 6, 2006

Allegan County Road Commission
Board of County Road Commissioners
1308 Lincoln Road
Allegan, Michigan 49010

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of Allegan County Road Commission, a component unit of Allegan County, as of and for the year ended December 31, 2005 and have issued our report thereon dated April 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Allegan County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether Allegan County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards, however, we did note

an instance of noncompliance described in the accompanying Comments and Recommendations as item 02-1.

This report is intended solely for the information of the Allegan County Road Commission management, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', is centered above the printed name.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ALLEGAN COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES

Our examination revealed the following instance of noncompliance with State statutes.

Separate Depository Account

Finding 02-01

Condition: During 2001, the county closed the Road Commission's savings account into the county's general checking account; commingling the Road Commission's funds with the rest of the funds of the county.

Criteria: MCL 247.662, Sec. 12 (12) Funds returned to a county shall be expended by the county road commission for the purposes provided in this section and **shall be deposited** by the county treasurer **in a designated county depository, in a separate account to the credit of the county road fund**, and shall be paid out only upon the order of the county road commission, and interest accruing on the money shall become a part of, and be deposited with the county road fund (emphasis added).

Directive: We direct that the Road Commission contact the county treasurer's office to re-establish a separate bank account for the Road Commission in accordance with State law to prevent the commingling of Road Commission funds.

Management's Response--Corrective Action Plan: Contact person is Claire Patrick, Allegan County Road Commission Business Manager, 1308 Lincoln Road, Allegan, Michigan 49010. Telephone (269) 673-2184.

I will contact the county treasurer and notify them of the violation of MCL 247.662 regarding the commingling of our funds immediately.